

SOUTH CENTRAL BEHAVIORAL HEALTH
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS

JUNE 30, 2015

SOUTH CENTRAL BEHAVIORAL HEALTH

TABLE OF CONTENTS

JUNE 30, 2015

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-4
BASIC FINANCIAL STATEMENTS:	<u>EXHIBIT</u>	
STATEMENT OF NET POSITION	A	5
STATEMENT OF ACTIVITIES	B	6
BALANCE SHEET	C	7-8
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	D	9-10
NOTES TO FINANCIAL STATEMENTS		11-16
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF A FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>		17-18
SCHEDULE OF FINDINGS		19

SOUTH CENTRAL BEHAVIORAL HEALTH

REGIONAL GOVERNANCE BOARD

JUNE 30, 2015

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
Steve Siegel	Board Chair	Wapello County Board of Supervisors
Ron Bride	Vice Chair	Davis County Board of Supervisors
Dean Kaster	Board Member	Appanoose County Board of Supervisors
Jennifer Vitko	Community Services Director	

INDEPENDENT AUDITOR'S REPORT

To the Regional Governance Board of
South Central Behavioral Health:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of South Central Behavioral Health, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Region's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Mental Health Funds of Appanoose County, Iowa, which represents 12.6% of the assets, 10.0% of the fund balance and 10.6% of the revenues included in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, respectively. That Mental Health Fund was audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Appanoose County, Iowa, is based solely on the reports of the other auditor. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Region's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Region's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 4 to the financial statements, management has not recorded a liability for compensated absences in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. U.S. generally accepted accounting principles require compensated absences attributable to employee services already rendered and not contingent on a specific event outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the liabilities, net position and expenses of governmental activities has not been determined.

Also, as discussed in Note 4 to the financial statements, management has not recorded a liability for other postemployment benefits (OPEB) in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. U.S. generally accepted accounting principles require the Region's annual OPEB costs based on the annual required contribution of the Region, an amount actuarially determined in accordance with GASB Statement No. 45, be accrued as liabilities and expenses, which would increase the liabilities, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the liabilities, net position and expenses of governmental activities has not been determined.

In addition, as discussed in Note 4 to the financial statements, management has not recorded a net pension liability, deferred outflows of resources or deferred inflows of resources related to pensions in governmental activities and, accordingly, has not recorded pension expense for the current period change in that liability, deferred outflows of resources or deferred inflows of resources. U.S. generally accepted accounting principles require pension costs attributable to employee services already rendered be accrued as liabilities, deferred outflows of resources, deferred inflows of resources and expenses, which would increase the liabilities, deferred outflows of resources and/or deferred inflows of resources, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters described in the "Basis for Adverse Opinion on Governmental Activities" paragraphs above, the Statement of Net Position and the Statement of Activities of the governmental activities do not present fairly the financial position of the governmental activities of South Central Behavioral Health, as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinions

In our opinion, based on our audit and the reports of the other auditor, the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances of each major fund present fairly, in all material respects, the financial position of South Central Behavioral Health, as of June 30, 2015 and the changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis which U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such omitted information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions on the basic financial statements are not affected by this omitted information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2016 on our consideration of South Central Behavioral Health's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering South Central Behavioral Health's internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
June 22, 2016

BASIC FINANCIAL STATEMENTS

SOUTH CENTRAL BEHAVIORAL HEALTHSTATEMENT OF NET POSITIONJUNE 30, 2015Governmental
ActivitiesASSETS:

Cash, cash equivalents and pooled investments	\$ 5,997,859
Receivables:	
Property tax:	
Delinquent	9,538
Succeeding year	2,376,404
Due from other governments	<u>45,567</u>
Total assets	<u>8,429,368</u>

LIABILITIES:

Accounts payable	102,159
Salaries and benefits payable	2,828
Due to other governments	<u>128,386</u>
Total liabilities	<u>233,373</u>

DEFERRED INFLOWS OF RESOURCES:

Unavailable property tax revenue	<u>2,376,404</u>
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NET POSITION:

Restricted for mental health purposes	\$ <u>5,819,591</u>
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SOUTH CENTRAL BEHAVIORAL HEALTHSTATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
<u>GOVERNMENTAL ACTIVITIES:</u>				
Mental health	\$ <u>2,337,406</u>	\$ <u>54,912</u>	\$ <u>149,248</u>	\$ <u>(2,133,246)</u>
<u>GENERAL REVENUES:</u>				
Property and other County tax levied for mental health purposes				2,501,954
State tax credits				220,856
Miscellaneous				28,869
Special item - initial contributions from member counties				<u>5,201,158</u>
Total general revenues and special item				<u>7,952,837</u>
Change in net position				5,819,591
<u>NET POSITION</u> - Beginning of year				<u>-</u>
<u>NET POSITION</u> - End of year				\$ <u>5,819,591</u>

SOUTH CENTRAL BEHAVIORAL HEALTH

BALANCE SHEET

JUNE 30, 2015

	<u>Fiscal Agent</u>	<u>Davis County</u>
<u>ASSETS</u>		
Cash, cash equivalents and pooled investments	\$ 490,665	\$ 492,455
Receivables:		
Property tax:		
Delinquent	-	689
Succeeding year	-	347,554
Due from other governments	-	22
TOTAL ASSETS	\$ <u>490,665</u>	\$ <u>840,720</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND FUND BALANCES</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 10,979	\$ -
Salaries and benefits payable	-	527
Due to other governments	-	-
TOTAL LIABILITIES	<u>10,979</u>	<u>527</u>
 <u>DEFERRED INFLOWS OF RESOURCES:</u>		
Unavailable revenues:		
Succeeding year property tax	-	347,554
Other	-	689
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>348,243</u>
 <u>FUND BALANCES:</u>		
Restricted for mental health purposes	<u>479,686</u>	<u>491,950</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>490,665</u>	\$ <u>840,720</u>

Amounts reported for governmental activities in the Statement of Net Position are different because certain long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows in the governmental funds.

Net position of governmental activities

Mental Health Funds

<u>Wapello County</u>	<u>Appanoose County</u>	<u>Region Total</u>
\$ 4,407,989	\$ 606,750	\$ 5,997,859
4,173	4,676	9,538
1,578,850	450,000	2,376,404
41,831	3,714	45,567
\$ <u>6,032,843</u>	\$ <u>1,065,140</u>	\$ <u>8,429,368</u>
\$ 56,878	\$ 34,302	\$ 102,159
1,915	386	2,828
128,386	-	128,386
<u>187,179</u>	<u>34,688</u>	<u>233,373</u>
1,578,850	450,000	2,376,404
3,850	4,676	9,215
<u>1,582,700</u>	<u>454,676</u>	<u>2,385,619</u>
<u>4,262,964</u>	<u>575,776</u>	<u>5,810,376</u>
\$ <u>6,032,843</u>	\$ <u>1,065,140</u>	
		<u>9,215</u>
		\$ <u>5,819,591</u>

SOUTH CENTRAL BEHAVIORAL HEALTH

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2015

	<u>Fiscal</u> <u>Agent</u>	<u>Davis</u> <u>County</u>
<u>REVENUES:</u>		
Property and other County tax	\$ -	\$ 380,226
Intergovernmental revenues		
State tax credits	-	32,808
Payments from member counties	1,096,169	-
Social services block grant	-	66
Other intergovernmental revenues	-	-
Total intergovernmental revenues	1,096,169	413,100
Miscellaneous	346	11,636
Total revenues	1,096,515	424,736
<u>EXPENDITURES:</u>		
Services to persons with:		
Mental illness	542,300	75,043
Intellectual disability	-	49,994
Other developmental disabilities	-	-
Total direct services to consumers	542,300	125,037
General administration		
Direct administration	74,529	39,049
Purchased administration	-	-
Distribution to MHDS regional fiscal agent	-	169,335
Total general administration	74,529	208,384
Total mental health, intellectual disabilities and developmental disabilities expenditures	616,829	333,421
Excess (deficiency) of revenues over (under) expenditures	479,686	91,315
Specal item - initial contributions from member counties	-	400,635
Net change in fund balances	479,686	491,950
<u>FUND BALANCES</u> - Beginning of year	-	-
<u>FUND BALANCES</u> - End of year	\$ 479,686	\$ 491,950

Amounts reported for governmental activities in the Statement of Activites are different because some revenues will not be collected for several months after the Region's year end and, therefore, are not considered available in the governmental funds.

Change in net position of governmental activities

Mental Health Funds

Wapello County	Appanoose County	Elimination Entries	Region Total
\$ 1,557,529	\$ 554,984	\$ -	\$ 2,492,739
133,154	54,894	-	220,856
-	-	(1,096,169)	-
133,604	15,578	-	149,248
54,424	488	-	54,912
1,878,711	625,944	(1,096,169)	2,917,755
7,510	9,377	-	28,869
1,886,221	635,321	(1,096,169)	2,946,624
921,792	333,629	-	1,872,764
9,509	16,090	-	75,593
-	5,304	-	5,304
931,301	355,023	-	1,953,661
227,401	36,658	-	377,637
-	6,108	-	6,108
672,424	254,410	(1,096,169)	-
899,825	297,176	(1,096,169)	383,745
1,831,126	652,199	(1,096,169)	2,337,406
55,095	(16,878)	-	609,218
4,207,869	592,654	-	5,201,158
4,262,964	575,776	-	5,810,376
-	-	-	-
\$ 4,262,964	\$ 575,776	\$ -	5,810,376
			9,215
		\$	5,819,591

SOUTH CENTRAL BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Central Behavioral Health is a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The Region includes the following member counties: Wapello, Davis, and Appanoose County, Iowa. The member counties entered into this 28E agreement on March 20, 2014 to create a mental health and disability service regional administrative entity as described by Chapter 331.389 of the Code of Iowa to provide local access to mental health and disability services for adults and to engage in any other related activity in which an Iowa 28E organization may lawfully be engaged.

The Region governing board is comprised of at least one board of supervisors' member, or their designees, from each member county.

South Central Behavioral Health designated Wapello County, Iowa as the fiscal agent to account for all funds of the organization as permitted by Chapter 331.391 of the Code of Iowa.

The Region's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements of the Region are intended to present the financial position and the changes in financial position of South Central Behavioral Health, which includes funds held by the Region's fiscal agent and funds held by the individual member counties in their respective special revenue mental health funds. Capital assets used for mental health purposes are owned by the respective member counties and, accordingly, are not reported in these financial statements.

A. Reporting Entity

For financial reporting purposes, South Central Behavioral Health has included all funds, organizations, agencies, commissions and authorities. The Region has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Region are such that exclusion would cause the Region's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Region to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Region. The Region has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Entity-wide financial statements – The Statement of Net Position and the Statement of Activities report information on all of the activities of the Region.

The Statement of Net Position presents the Region's assets, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following category:

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

SOUTH CENTRAL BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Entity-wide financial statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include grants, contributions and interest restricted to meeting the operational requirements of a particular function. Property and other county tax, state tax credits, unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Region reports the following major governmental funds:

Special Revenue:

Mental Health Fund (Fiscal Agent) is used to account for the activity of the Region not expended directly from the Mental Health Funds of the individual member counties.

Davis, Wapello, and Appanoose County, Iowa Mental Health Funds are used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities and developmental disabilities services.

C. Measurement Focus and Basis of Accounting

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Region considers revenues to be available if they are collected by the Region or member county within 90 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Region or member county.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

SOUTH CENTRAL BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Under the terms of grant agreements, the Region funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Region's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Region's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments – The cash balances of most Region funds are pooled and invested. Interest earned on investments is recorded either by the fiscal agent or the member county mental health fund unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by each member county board of supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by each member county board of supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, each member county board of supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the entity-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified by each member county board of supervisors in March 2014.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the Region and payments for services which will be remitted to other governments.

SOUTH CENTRAL BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity (Continued)

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within ninety days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables that will not be recognized until the year for which it is levied.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

NOTE 2: CASH AND INVESTMENTS

The Region's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Region is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Region; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Region had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3: SPECIAL ITEM – INITIAL CONTRIBUTIONS FROM MEMBER COUNTIES

South Central Behavioral Health began operations July 1, 2014. The ending balances of the Mental Health Funds of each member county as of June 30, 2014 are reported as initial contributions from member counties in the Statement of Activities.

NOTE 4: COMPENSATED ABSENCES, OTHER POSTEMPLOYMENT BENEFITS (OPEB) AND PENSION PLAN

In accordance with statements of understanding between the Regional Governance Board and each individual member county board of supervisors, the Regional Chief Executive Officer, the Coordinators of Disability Services and all support staff of the Region remain employees of the respective individual member counties. The applicable portion of the employee's wages and benefits are reimbursed to the individual member county from the Region.

The individual member county employees also accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Also, the individual member county employees are provided other postemployment and pension benefits. U.S. generally accepted accounting principles require deferred outflows of resources, liabilities, deferred inflows of resources and related expenses to be recorded when incurred for these items on the governmental activities financial statements. The Region's governmental activities financial statements do not report these amounts.

SOUTH CENTRAL BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5: RISK MANAGEMENT

The Organization is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Organization's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Organization's contributions to the Pool for the year ended June 30, 2015 were \$5,139. This amount does not include any amounts paid by the member counties.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public official's liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Organization's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Organization's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceed the amount of risk-sharing protection provided by the Organization's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Organization does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the Organization's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

SOUTH CENTRAL BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5: RISK MANAGEMENT (Continued)

The Organization also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the past year.

NOTE 6: LEASE

The Organization leases office space for \$800 per month with terms through April 30, 2017. Future minimum lease payments are as follows:

Year ended

June 30, 2016	\$ 9,600
June 30, 2017	<u>8,000</u>
	\$ <u>17,600</u>

Rent expense for the year ended June 30, 2015 was \$1,600.

NOTE 7: SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 22, 2016, the date the financial statements were available to be issued.

Subsequent to June 30, 2015, Mahaska County, Iowa joined South Central Behavioral Health.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Regional Governance Board of
South Central Behavioral Health:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of South Central Behavioral Health as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, and have issued our report thereon dated June 22, 2016. Our report expressed unmodified opinions on the financial statements of each major fund. Our report expressed an adverse opinion on the financial statements of the governmental activities due to the omission of compensated absences, other postemployment benefits and pension related activity. Our report includes a reference to other auditors who audited the Mental Health Fund of Appanoose County, Iowa, as described in our report on South Central Behavioral Health's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. This report does not include the results of our testing of internal control over financial reporting or compliance and other matters of our separate audits of Wapello County, Iowa and Davis County, Iowa.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Behavioral Health's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Behavioral Health's internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Behavioral Health's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of South Central Behavioral Health's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Region's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Region. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

South Central Behavioral Health's Responses to the Findings

South Central Behavioral Health's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. South Central Behavioral Health's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Region's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Region's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South Central Behavioral Health during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
June 22, 2016

SOUTH CENTRAL BEHAVIORAL HEALTH
SCHEDULE OF FINDINGS

JUNE 30, 2015

Part I: Summary of the Independent Auditor's Results:

- a) A modified opinion was issued on the governmental activities financial statements. Unmodified opinions were issued on the governmental fund financial statements.
- b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-15 Region Minutes – No transactions were found that we believe should have been approved in the Region minutes but were not.

The Code of Iowa requires that board meeting minutes be published within 20 days of the board meeting. The minutes for August 28, 2014, November 20, 2014, January 8, 2015, May 28, 2015 and June 18, 2015 were not published within 20 days.

Recommendation – Minutes should be published to be in compliance with the Code.

Response – We will do so from now on.

Conclusion – Response accepted.

III-B-15 Travel Expense – No disbursements of Region money for travel expenses of spouses of Region officials or employees were noted.

III-C-15 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Region's investment policy were noted.

III-D-15 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.